

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking on the)	
Commission's Proposed Policies)	
Governing Restructuring California's)	
Electric Services Industry and)	R.94-04-031
Reforming Regulation)	(Filed April 20, 1994)
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Order Instituting Investigation on the)	
Commission's Proposed Policies)	I.94-04-032
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_____)	

**WORKING GROUP REPORT CONCERNING
THE INTEGRATION OF CERTAIN PUBLIC PURPOSE PROGRAMS
(Preliminary Draft 9/23/96)**

**Submitted by the Energy Efficiency and RD&D Working Groups
Submitted on October 4, 1996**

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WORKING GROUP REPORT CONCERNING THE INTEGRATION OF CERTAIN PUBLIC PURPOSE PROGRAMS

I. INTRODUCTION

A. Background

In early 1996, the California Public Utilities Commission (CPUC) requested participants in California's electric industry restructuring process to form Working Groups to address various issues concerning public purpose programs such as energy efficiency (EE), and research, development and demonstration (RD&D) activities. Each Working Group prepared and submitted separate reports to the CPUC containing discussions of the issues and participating parties' recommendations on these topics.¹ Copies of the Executive Summary for the RD&D and EE Reports are included in Appendix A and Appendix B, respectively.

Subsequently, in a Joint Assigned Commissioners' Ruling (JACR) dated June 6, 1996, the CPUC indicated that many restructuring issues would need to be coordinated, and that the options for implementing the public goods charge pertaining to RD&D and EE activities should be integrated (pp. 5-6). Thereafter, Commissioner Josiah Neeper (coordinating commissioner for public purpose programs) specified that a separate "integration report" concerning RD&D and EE activities was to be submitted to the CPUC on October 4, 1996, following completion of the individual Working Group reports on RD&D and EE activities.² In response to these directions members of the RD&D and EE Working Groups held three joint meetings to discuss and prepare this Integration Report.

B. Summary of the Effect of AB 1890 on Public Interest RD&D and EE Programs

On September 23, 1996 Governor Pete Wilson signed into law Assembly Bill (AB) 1890 concerning electric industry restructuring in California. This law resolves some of the issues that were raised in one or both of the Working Group reports on RD&D and EE. In doing so, AB1890 also dealt with some of the integration issues that this report would otherwise have raised. In particular, AB1890 addressed and resolved the following specific issues relating to RD&D and EE:

- (1) For electrical corporations and publicly-owned utilities the costs of EE and public interest RD&D programs will be recovered through a nonbypassable, usage-based, rate

¹ See *Funding and Administering Public Interest Energy Efficiency Programs: The Report of the Energy Efficiency Working Group.*, August 16, 1996; and *Working Group Report on Public Interest RD&D Activities.*, September 6, 1996.

² Letter from Commissioner Neeper to the EE Working Group, care of Mike Messenger, July 25, 1996.

- component of local distribution service (AB 1890, Article 7, Sections 381(a) and 385(a));
- (2) The minimum funding level to be provided by SDG&E, SCE, and PG&E for cost-effective EE activities is \$228 million per year for 1998, 1999 and 2000, and \$178 million for 2001 (AB 1890, Article 7, Section 381(c)(1));
 - (3) The minimum funding level to be provided by SDG&E, SCE, and PG&E for public interest RD&D programs to advance science or technology that are not adequately provided by competitive and regulated market is \$62.5 million per year for 1998 through 2001 (AB 1890, Article 7, Section 381(c)(2));
 - (4) The CPUC shall determine how to utilize the funds collected for specified RD&D and EE activities, provided that only those RD&D funds for transmission and distribution functions shall remain with the regulated private utilities under the supervision of the Commission. All other RD&D funds collected for public interest RD&D will be transferred to the California Energy Commission (CEC) pursuant to administration and expenditure criteria to be established by the Legislature (AB 1890, Article 7, Section 381(f)); and
 - (5) The minimum level of annual investment by publicly-owned utilities in any or all of the following areas has been determined: a) cost-effective demand side management services to promote energy-efficiency and energy conservation; b) RD&D for the public interest which is not adequately provided by competitive and regulated markets; c) new investment in renewable energy resources and technologies; and d) services for low-income electricity customers including targeted EE service and rate discounts. **(Query: Is this point needed for this report?)**

C. Purpose of this Integration Report

The major purpose of this Integration Report is to describe the key issues which still need to be addressed by policy makers to ensure efficient and effective coordination between RD&D and EE programs. Parties who participated in the preparation of this report agree that there is also a need for policy makers to recognize and address the issue of coordination with the state's renewable technology programs, particularly since AB 1890 now funds these renewable programs through a public goods surcharge as well. However, since the Integration Working Group was only established to address RD&D and EE issues pursuant to the CPUC's direction, our comments concerning integration of the renewable generation programs are limited.

The following sections of this Integration Report will discuss areas where coordination and/or integration may be of concern regarding potential functional, funding and governance issues pertaining to both RD&D and EE activities. Other coordination issues are also identified in the final section of this report.

II. POTENTIAL FUNCTIONAL AND SECTOR OVERLAPS RELATED TO RD&D AND EE PROGRAMS

This section of the Integration Report provides a discussion of the potential for functional overlaps between the public interest RD&D and EE program efforts. It also briefly addresses the topic of "sector" overlaps between competitive, regulated and public interest RD&D and EE efforts.

A. Potential Functional Overlaps

Policy makers should recognize that some functional overlaps may exist between public interest RD&D and EE programs. This is so because, conceptually at least, it is possible to view some RD&D and EE activities as a sequence of events that take place along a continuum. Table 1, below, provides a depiction of this process-oriented view as it might apply to a particular energy efficient end-use technology that must successfully wind its way through the RD&D and EE processes.

Table 1

<p>Public Interest Research > Development > Demonstration > Commercialization > Market Transformation > > Broad Market Acceptance</p>
--

The top row of activities in Table 1 represents the functions commonly considered to fit within the traditional definitions of RD&D activities. The second row of activities represents the "gray area" of potential functional overlaps between RD&D "commercialization" activities and EE "market transformation" activities that are addressed in both the RD&D and EE Working Group Reports. This "gray area" of potential functional overlaps between the RD&D and EE programs are discussed in greater detail below. The bottom row represents the end result of a successful market transformation effort.

1. Potential Functional Overlaps Specifically Pertaining to RD&D Activities

The definitions below are drawn from the RD&D Working Group Report (p. 2-3). These RD&D definitions are provided in this Integration Report as a means of further identifying specific areas where the potential for functional overlaps between the RD&D and EE programs exist.

Research, development and demonstration (RD&D) is the process of advancing science and technology from the initial stages of exploring a concept, through the laboratory and applications-testing of components and systems, to the eventual introduction into the market. RD&D consists of three elements - research, development and demonstration - defined as follows:

- (a) **Research:** The process used to discover fundamental new knowledge;
- (b) **Development:** The application of new knowledge to develop a potential new technology or product;
- (c) **Demonstration:** The early application and integration of a new technology or product into an existing system.

Efforts required to effectively implement a cost effective EE program could involve some "research," some "development," and/or some "demonstration" activities as these terms are defined above, and therefore potential functional overlaps exist between the two programs in this regard.

2. Potential Functional Overlaps Specifically Pertaining to Commercialization and Market Transformation Activities

a) *RD&D Definition of Commercialization Activities*

At the end of the RD&D process, there is a "broad spectrum of activities that comes under the rubric of commercialization." In the RD&D Working Group Report, "commercialization" is defined as follows:

"[Commercialization activities]are all aimed at reducing market barriers that would slow or prevent technologies or products from reaching consumers" (p. 2-4).

The focus on activities that reduce market barriers in this definition should be compared with the EE Working Group's definition of "market transformation" EE activities.

b) *EE Definition of Market Transformation Activities*

Most of the members of the EE Working Group agreed upon the following interim definition of market transformation:

"Publicly-funded market transformation activities are designed to achieve long-lasting changes in the structure or operation of the market by reducing market barriers to the adoption of cost beneficial EE measures to the point where further public intervention is no longer appropriate in that specific market segment" (p. ?).

c) Functional Overlaps Between RD&D Commercialization and EE Market Transformation Activities

As can be seen above, the parallel scope of activities described by the RD&D Working Group's definition of "commercialization" and the EE Group's definition of "market transformation" clearly gives rise to the potential for functional overlaps. Whether or not this potential will actually result in functional overlap(s) between RD&D and EE, however, is dependent upon what definitions/boundaries are finally adopted and implemented.

This point is made clear by the fact that the members of the RD&D Working Group expressed "differing views about what commercialization activities, if any, should be specifically financed with public interest RD&D surcharge funds" (p. 3-3). While the RD&D Working Group supports the pursuit of "limited scale" commercialization activities (e.g., identifying legal/regulatory market barriers, providing impartial information), there was no consensus that it would be appropriate to use RD&D surcharge funds to pursue "larger scale" commercialization activities (p. 3-3). Thus, depending on what scope of RD&D commercialization activities is ultimately implemented, the potential for functional overlaps between the RD&D and EE programs increases or decreases. In the same vein, the EE portion of the potential for functional overlap increases or decreases in direct relation to the nature and amount of EE surcharge-funded market transformation activities that are actually pursued.

3. Options for Addressing Functional Overlaps

There are essentially three options for addressing functional overlaps between RD&D and EE. The first option is to eliminate all overlaps by establishing a "bright line" separation between what may be implemented through surcharge-funded RD&D and surcharge-funded EE programs. The second option is to coordinate "what-gets-done-where" by implementing a formal (or informal) coordination strategy. The third option is not to take any action aimed at eliminating or coordinating functional overlaps, and to simply allow these overlaps to occur. Members of the Integration Report Working Group will state their preferences regarding these options in their comments on this report which are to be filed with the CPUC on October 24, 1996.

B. Potential Sector Overlaps

The clearest way to identify what is meant by a "sector overlap" is to examine the CPUC's December 1995 Restructuring Decision (D. 95-12-023). There, the Commission expressed its desire to develop boundary definitions that separate RD&D into three sectors: competitive, regulated and public goods research. This classification of RD&D activities into three separate sectors is depicted in Table 2 below.

Table 2

<i>RD&D Activities</i>	=	<i>Competitive RD&D activities</i>
		<i>Regulated RD&D activities</i>
		<i>Public Goods RD&D activities</i>

The RD&D Working Group tackled the challenge of developing a means of differentiating between these three research sectors. As a result, the RD&D Working Group’s Report provided the following definitions:

Competitive RD&D activities are directed toward developing science or technology, the benefits of which can be appropriated by the private sector entity making the investment (p. 2-4).

Regulated RD&D activities are directed toward developing science or technology, the benefits of which are related to regulated functions of the entity making the investment (p. 2-6).

Public interest RD&D activities are directed toward developing science or technology, (1) the benefits of which accrue to California citizens and (2) that are not adequately addressed by competitive or regulated entities (p. 2-7).

These "broad and flexible" guidelines were presented in the RD&D Working Group Report instead of precise definitions because the RD&D Working Group members concluded that there are natural overlaps and/or spillovers between these sectors that confound clear and distinct boundaries (pp. 2-1 through 2-2).

These potential sector overlaps are the subject of much discussion in the RD&D and EE Reports (See RD&D Report, pp. 2-1 through 2-9; and EE Report, pp. 2-1 through 2-16). The RD&D Working Group determined that while sector overlaps will occasionally occur as a result of their proposed flexible definitions, this should not be viewed as an "inefficient or otherwise undesirable outcome" (p. 2-2). Moreover, sector overlaps - either within RD&D or EE -- do not directly raise integration issues between RD&D and EE. For these reasons, sector overlaps will not be addressed further in this Integration Report.

III. FUNDING ISSUES RELATED TO BOTH RD&D AND EE PROGRAMS

A. Determination of Total Public Purpose Program Funding Levels

[Query: Should the following discussion be integrated with topic IV B on the Integration Report outline?]

Is there a need for a coordinated CPUC proceeding to decide funding levels for 1998 (at or above the amounts specified in AB1890) for public interest RD&D and EE programs? How will funding levels be determined for these public purpose programs in the long term?

[Query: Given the passage of AB 1890, can the next 5 paragraphs be deleted?]

The RD&D and EE Working Group reports contain somewhat differing conclusions regarding the need to integrate funding level recommendations. [delete?]

"The [EE] Working Group believes that the funding requirements set forth for EE activities above can simply be added to those levels the CPUC finds are necessary to pursue the other public policy goals to determine the PGC level. This is because there is little if any functional overlap between the EE market activities outlined here and the research and development activities considered in the RD&D Working Group." (EE Report, p. 3-14, line 9-14). [delete?]

"Most [EEWG] members recommend that the PGC be set at a level to fund both EE programs and research and development programs. Other parties feel strongly that RD&D programs should be funded separately. (SCG at a minimum.) SDG&E and EMG believe that the PGC should cover both RD&D and EE programs, but that the specific amounts allocated to each area should be determined in advance, at the time the PGC level is established. The principle should be followed independent of which administrative option is adopted. (EE Report, p. 3-18, lines 26-31) [delete?]

"...at least one party from the [RD&D] WG believes that it is premature to establish a specific funding level for RD&D programs without first considering the cumulative amount of dollars to be collected by the various surcharges for all public policy programs. This party believes that while it is important to designate the amount to be devoted to each program (EE, RD&D low income, etc.) the funding level should be determined in a coordinated effort by looking at all surcharges together." (RD&D Report, p. 3-1). [delete?]

In consideration of the completed Working Group Reports and the passage of AB1890, the members of the Integration Working Group conclude that there are functional and sector overlaps between EE and Public Interest RD&D activities. Section II of this report, above, describes the potential functional overlaps between the RD&D and EE activities funded through the public goods surcharge in some detail. One overlap is that RD&D activities will provide technologies and processes for application by the EE programs. Similarly, EE program managers may identify areas that would benefit from research, development and demonstration activities. [delete?]

AB1890 specifies a minimum funding level for public interest RD&D and cost effective EE programs, but does not establish a mechanism for considering higher funding levels. A review of RD&D and EE program plans may indicate a need to change funding levels, for example, in order

to meet EE programs schedule requirements or to fulfill obligations to partners in collaborative activities or external alliances. The potential linkage between RD&D and EE program activities creates a need for a coordinated proceeding to determine RD&D and EE program funding levels. This coordination should occur between organizations with responsibilities for implementing EE and public interest RD&D programs after 1998. We acknowledge that the CPUC has primary jurisdictional authority over the collection and expenditure of funds in these areas, while the CEC has been given authority to implement and manage specified public interest RD&D programs. The authors of this report recommend that the CPUC and CEC jointly develop a streamlined process for setting funding levels that reflects the following input from the RD&D and EE Working Group reports:

"The level of expenditures required to support EE programs through a PGC is a function of the goals adopted for the programs by the Legislature or governmental bodies, trends in energy prices, how well the private market for EE is functioning, the strategies proposed for the use of the funds, and the type of administration use to oversee how the funds are spent. Accordingly the amount of money necessary to achieve these goals is likely to change over time and should be modified periodically" (EE Report, p. 3-6).

"The following is a list of factors the [EE] Working Group members recommend that the CPUC should consider when determining the initial funding level:

- Historical funding requirements and current authorized budgets for DSM and EE programs operated by investor-owned utilities.
- The potential need for the new administrator to develop new forms of energy assistance/programs during an uncertain restructuring period.
- Changes in long-term funding requirements from programmatic and/or administrative shifts
- The societal cost-effectiveness of previous utility programs and the potential need to mitigate market power or other problems identified in the environmental impact report produced for the restructuring proceeding." (p. 3-7).

"After the initial surcharge level is set, provision should be made for modifications to this level to reflect the success or failure of these [EE] programs. How often these adjustments need to be made is in part a function of which administration and supporting delivery system options are chosen." (p. 3-16).

Commercialization and market transformation activities are another area of potential overlap between the RD&D and EE activities (and also the renewables program established in AB1890). The EE Working Group Report recommends an extensive market transformation mandate for the EE program that has been confirmed by AB 1890. While the RD&D Working Group did not

reach consensus on the need for a large-scale commercialization scope, it did allow flexibility for the administrator to consider such activities.

We recommend that the CPUC and CEC jointly establish the proper lines of responsibility for larger-scale commercialization and market transformation activities related to EE technologies in the EE program. Small-scale commercialization activities for technologies and processes just concluding final stages of development and demonstration should be conducted by the RD&D program, subject to funds availability. The salient points from the RD&D and EE WG reports include the following:

"Publicly funded market transformation activities are designed to achieve long-lasting changes in the structure or operation of the market by reducing market barriers to the adoption of cost beneficial EE measures to the point where further public intervention is no longer appropriate in that specific market segment." (EE Report, p. 2-3).

"[RD&D] WG participants have differing views about what commercialization activities, if any, should be specifically financed with public interest RD&D surcharge funds.... However, the RD&D program wherever possible should be connected to the market, and therefore the RO should have the ability to undertake limited-scale public interest commercialization activities, primarily for technologies addressed by the RO's RD&D program." (RD&D Report, p. 3-3).

"The [RD&D] WG members also agreed that some types of larger-scale and higher-cost technology commercialization activities may not be adequately provided by competitive and regulated entities alone, but did not reach consensus regarding whether the public interest RD&D surcharge is an appropriate mechanism for funding such activities." (RD&D Report, p. 3-3).

B. Allocation of Public Purpose Program Funds

How will funds be allocated between public interest RD&D program areas (which are to focus on energy efficiency, renewables and environmental issues) and EE program areas?

The authors of the Integration Report were unable to assemble a critical mass of representatives from the Renewables Working Group. However, participants in the Integration Working Group indicated their belief that implementation proceedings should also be held to clarify the line between renewables activities supported by AB1890 and public interest RD&D activities.

On RD&D and EE funding allocations a mutual understanding of program direction will enable the RD&D program to be responsive to the EE programs' anticipated needs and will allow the EE program manager to plan for the larger-scale commercialization activities for technologies emerging from the RD&D pipeline.

"The [RD&D] WG members agreed that surcharge funded public interest RD&D activities should focus primarily on energy efficiency, renewable technologies and environmental issues." (RD&D Report, p. 3-2). However, the RD&D Report did not address specific mechanisms for allocating RD&D surcharge funds among these public interest activities. Instead the RD&D Working Group intended to preserve flexibility by allowing the RD&D administrator to make this determination. The Integration Working Group recommends that the CPUC establish mechanisms for gathering pertinent information in the process that evolves for the CPUC's charge, under AB1890, to determine how to utilize public interest RD&D funds.

IV. THE NEED FOR COORDINATION IN THE GOVERNANCE OF RD&D AND EE PROGRAMS

In the context of this Integration Report, "governance" refers to the institutional mechanisms by which public interest RD&D and EE programs are implemented, facilitated and rewarded (or, in the alternative, how accountability for failing to meet policy objectives is enforced). The potential overlaps and/or the need for coordination in these governance functions can arise wherever there are functional overlaps.

To better understand how these governance overlaps can arise, and their effects if they do, it is useful to first look at the primary functions that will be carried out using surcharge funds collected for public interest RD&D and EE activities. These functions are discussed below.

A. Primary RD&D Governance Functions

The RD&D Working Group Report identifies four primary functions to be carried out by the Research Organization (RO) that governs the use of surcharge-funded RD&D activities (pp. 4-2 through 4-3). These primary functions are:

(1) *Policy making* - The WG agreed that the RO must carry out its various functions in a manner which is consistent with state energy policies. In addition, the RO will have and seek information and expert advice regarding public interest RD&D activities and needs in California. This information will allow the RO to make educated policy-level decisions concerning its own RD&D programs, and will also enable the RO to provide useful policy-level input to the Legislature and others.

(2) *Program planning* - The RO will need a plan for implementing its research program. This plan could result from either internal RO work which builds upon stakeholder and/or advisory committee input, or from a plan developed externally. The RO will also need to undertake some limited energy technology assessment activities (e.g., obtaining baseline costs and performance data) for plan evaluation purposes.

(3) *Implementing RD&D activities* - the RO must ensure that its RD&D plan is effectively and efficiently implemented. The RO will implement the RD&D activities in its plan primarily by contracting out this work to qualified individuals and/or companies. However, the WG does not intend to exclude the RO from participation in technology assessment and planning activities, or from personal exchanges which enhance the RO's internal RD&D capabilities.

(4) *Program administration* - The RO must administer and manage the ongoing RD&D activities in its RD&D program. Administrative activities would include review and evaluation of program results, actions needed to maximize the productivity of RD&D contractors, and periodic progress reports to appropriate public oversight entities.

B. Primary Energy Efficiency Governance Functions

The EE Working Group also identified four primary functions that will take place in relation to surcharge-funded EE activities (pp. 4-1 through 4-4). These primary functions are:

(1) *Policy setting* includes identification of who will be responsible for setting policy regarding what activities will be funded by the PGC and ensuring these funds are spent effectively to match state policy objectives. This includes a discussion of who will be responsible for selecting the members of the governing board, who will be accountable for the oversight of organizations charged with administration and management of PGC funds, and who will be responsible for setting overall policy guidelines and or budget

priorities. Finally, this function includes the responsibility to enforce and adjudicate policy disputes and review, and perhaps approve, proposals to modify the strategies used to achieve objectives.

(2) *Administration and management* describes the entities responsible for operational oversight of PGC funds. These responsibilities include program design; proposing budget for specific programs and activities within the overall guidance provided above; procuring providers to deliver services or programs within approved budgets (including developing requests for proposals when needed); and tracking and reporting the PGC spending.

(3) *Implementation* describes which entities or firms would be involved in the delivery of various types of PGC-funded EE services or activities. This category includes a description of (a) who would be eligible and responsible for implementing Board plans to effectively participate in regional/national upstream market transformation efforts; (b) who would be responsible for delivering more targeted, non-customer specific EE services or programs intended primarily to transform California or regional markets; and (c) who would deliver customer-specific energy services (such as the installation of more efficient equipment.)

(4) *Market barrier assessment and program evaluation* describes the entities or market participants responsible for planning and evaluation activities. These responsibilities include assessing overall progress by the programs in meeting specific market objectives and/or achieving reductions in market barriers; recommending new program designs and pilot programs based on these assessments and other evaluation research; and measuring the performance of specific programs either by verifying the energy savings achieved or gathering market data on other measures of program effectiveness.

C. Options for Addressing Governance Overlaps Concerning Primary RD&D and EE Functions

As with the potentially overlapping programmatic functions discussed in Part II of this Integration Report, above, it is clear that there are also potential governance overlaps pertaining to the administration of the public interest RD&D and EE programs. (Similar overlaps also may exist regarding the governance of the renewables generation programs). There are four basic options for addressing these potential governing overlaps between RD&D and EE programs, as follows:

- (1) Create a single governing authority over all areas of potential overlap;
- (2) Jointly share the governing authority between two or more governing authorities;

(3) Develop and implement an effective coordination strategy between the various governing authorities; or

(4) Do not coordinate, and simply allow the various governing authorities to act independently of each other.

The Integration Working Group believes that the last option should be avoided if at all possible. Regarding the first three options, parties will state their preferences when comments concerning this Integration Report are filed on October 24, 1996.

V. OTHER COMMON ISSUES PERTAINING TO PUBLIC INTEREST RD&D AND EE PROGRAMS

AB 1890 makes significant changes in the way ratepayer funds will be collected and administered to achieve public policy goals. For example, under the new law some RD&D projects will be overseen by the CEC, other projects by the CPUC, and still others by municipal utility boards. In the future, EE projects could be overseen by the CPUC, municipal boards, or perhaps by some new independent governing board (as proposed in 7 of the 8 proposals in the EE Report.) These changes in oversight make it very important for the different governing authorities to meet and regularly exchange information on the projects they are responsible for administering, as well as those in planning stages to maximize the effectiveness of ratepayer dollars. In addition there may be some value in trying to standardize or coordinate various funding decisions. Several specific issues which public interest RD&D and EE programs share in common are explored below.

A. Coordination of Surcharge Collection

How will surcharge collection for public goods programs and potential changes in funding levels be coordinated with the unbundling of public goods services and other utility functions that are required by AB 1890 to occur before January 1, 1998?

Utility staff are currently working on changing their billing format system to accommodate multiple charges for generation, transmission, distribution, public goods and competitive transition charge (CTC) costs. These analysts need to know how much revenue needs to be raised for these functions well before the January 1, 1998 deadline to properly design rates and convert these requirements into charges. They will also need to know if the CPUC is planning to authorize more than the minimum levels for public goods programs that are identified in AB1890. The issue is when will the CPUC either make this decision or outline a process to make these decisions. This question is complicated by the fact that most of the working group reports have called for the development and perhaps funding of governing boards to oversee some or all of these activities.

The following options are available for resolving this issue:

- (1) The CPUC could provide a decision on funding levels, and indicate its preferred rate design for the collection of public goods funds, in the next CPUC restructuring decision;
- (2) The CPUC could issue a schedule regarding when selection of the administrative forum for EE and public interest RD&D will occur, and when funding decisions will be made; or
- (3) The CPUC could make no decision on these issues, and simply assume that the utilities will collect enough money to meet the minimum funding levels required in AB1890.

B. Need For Uniform Public Interest Program Funding Levels Among Utilities

[Readers note- The issue below was not identified on the outline but the author (Mike Messenger) felt it was an important issue in common that should be addressed in this Integration Report.]

Different proportions of each customer's bill in SCE, SDG&E and PGE service areas will go to fund public benefits projects if the minimum funding levels in AB1890 are adopted by the CPUC. This is in conflict with an earlier CPUC decision that called for a uniform surcharge. Table 3 illustrates these disparities using 1994 IOU electricity revenues as the base for comparison with the funding minimums contained in AB 1890.

Some parties feel that this differential in rates may lead to competitive distortions in the marketplace as suppliers attempt to compete by luring customers to their service territory with the promise of a lower public goods charge. Other parties are willing to live with these differences in rates for a variety of reasons. One reason is that the magnitude of the public goods component is not nearly as large as the Competition Transition Charges also due to take effect on January 1, 1998.

Table 3

Comparison of Minimum AB 1890 Public Purpose Funding Levels With 1994 IOU Electricity Revenues (\$ millions)

Electric IOU	Total 1994 Electricity Revenues	Minimum AB 1890 EE funds	Minimum AB 1890 RD&D funds	Minimum AB 1890 Low income*	Minimum AB 1890 Renewables	Minimum AB1890 Totals	% of 1994 Revenues
PGE	\$8,109	\$106	\$30	\$51	\$48	\$235	2.9%

SCE	\$7,791	\$90	\$29	\$43	\$49	\$210	2.7%
SDGE	\$1,510	\$32	\$4	\$14	\$12	\$62	4.1%
Total	\$17,410	\$228	\$63	\$108	\$109	\$507	2.9%
*CARE numbers are actual cash outlay for 15% low income discount in 1995. Direct Assistance (DA) uses the 1996 authorized level for each utility.							

Options for resolving this issue are as follows:

- (1) The CPUC could choose to implement its goal of developing a uniform charge by adopting funding levels equivalent to the highest revenue percentage, in this case the 4.1 % adopted for San Diego;
- (2) The CPUC could choose a lower minimum revenue percentage, perhaps 3%, for all public benefit programs and gradually move toward this level after 2002; or
- (3) The CPUC could choose to postpone any consideration of this issue until after the rate components for each utility are unveiled to the public within bills and the potential for competing on the basis of differentials in the public goods charge was assessed in the real world.

C. Coordination With Natural Gas and Municipal Utility Programs

Given the passage of AB 1890, what actions should be taken to help coordinate the results of electricity and natural gas RD&D & EE projects/programs which may be supervised or reviewed by different bodies? What should be done to ensure coordination of the RD&D and EE projects funded by IOUs and customer-owned (i.e., municipal) utilities?

The energy market for most Californians includes the option to purchase either gas or electricity to meet their energy needs. How can gas and electric RD&D and EE programs be coordinated to ensure the most beneficial results for both? How can IOUs and municipal utility programs be coordinated?

Under AB1890, investor-owned electric utilities will have an obligation to spend a minimum level of funding on public goods projects and display this charge on every customers bill. Gas utilities are under no obligation to spend money on public goods projects or display the magnitude of funds they spend. This situation may cause competitive distortions in the market as discussed on in both the EE and RD&D Reports (EE Report, p. 3-1; and RD&D Report, pp. 3-17 and 3-18). This is also an issue for other public purpose programs.

Options for resolving these issues are as follows:

- (1) The CPUC could extend the requirement to unbundle gas public goods expenditures to natural gas utilities as a line item;
- (2) The CPUC could accomplish the first item and consider setting a minimum funding level for gas UDC's as recommended in the Working Group report;
- (3) The CPUC could consider an advertising campaign or billing insert to explain why different geographic areas are paying different charges for different public goods components, and attempt to work with organization such as CMUA and others to develop coordinated public interest RD&D and EE programs; or
- (4) The CPUC could do nothing.

D. Coordination of Initial Funding Decisions Among Public Purpose Oversight Bodies

The timing of the unbundling of traditional utility functions on the customer bill (including the public goods charge or "rate component") must be preceded by the CPUC's decisions on the funding levels for low income, EE, RD&D and renewable programs for 1998 and beyond. Municipal boards must also resolve similar timing issues to comply with AB1890. These decisions must be made before the unbundling occurs to allow for some consideration of potential rate designs and actual rates to be used to collect the authorized funding level.

AB1890 sets minimum funding levels but identifies no process or dates for when the actual spending levels will be approved by the CPUC or the municipal boards governed by Article 8 of the legislation. Ideally all of these new charges would be made public at roughly the same time to minimize the confusion that might result if new rate structures appeared every month or in different cities in common regions.. The CPUC originally called for line items for each of these four functions by January 1, 1997, but later postponed this filing. There is no known schedule for municipal utilities. Various potential suppliers of generation services are calling for even more unbundling of functions before January 1, 1998.

It is not likely that any unbundling of rates on IOU bills will occur until after CPUC decisions are made on how to separate and classify myriad utility assets as either generation, transmission or distribution related in ongoing performance based rate making applications. The CPUC hopes to have this unbundling occur by January 1, 1998 but this deadline may prove difficult given the numerous new issues raised by AB1890.

Options to resolve this issue include the following:

- (1) The CPUC could institute a proceeding or issue a decision on the funding levels for RD&D and EE programs by the spring of 1997 to feed into the larger proceedings related to the unbundling of all utility functions into line items on the bill by January 1, 1998. This information will also be useful in signaling what fraction of the RD&D funds should be sent to the CEC to meet public goods objectives and hastening the actual transfer of funds well before January 1, 1998;
- (2) Do not attempt to coordinate this unbundling of the PGC function with municipal boards. Instead the CPUC could issue a schedule for the unbundling of the main utility rate components (e.g., generation, transmission, distribution, public goods) that is to be completed in the fall of 1997;
- (3) The CPUC could seek cooperation with the key municipal boards to encourage some similar level of unbundling of public goods program rates by some time certain but avoid the funding coordination issue for now; or

(4) Other options?

APPENDIX A

RD&D WORKING GROUP REPORT EXECUTIVE SUMMARY

APPENDIX B

ENERGY EFFICIENCY WORKING GROUP REPORT EXECUTIVE SUMMARY